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HOW MUCH SHOULD YOU COUNTY ON DIVIDEND INCOME?

How much should you count on dividend income?

One of the challenges many older investors face when managing their cash flow pertains to income from dividends. Unfortunately, common stock dividends come with no guarantees. Companies are not required to pay them, and those that do can suspend their dividends at any time as their business needs dictate. Since there are no guarantees for dividends, should you rely on them for planning even a portion of your retirement income? Possibly, but first consider the following points.

First, create a diversified portfolio of different dividend-paying stocks. If your dividends are coming from a single source, you run the risk of losing what could be a significant portion of your income should the company decide to discontinue its dividend payments.

With a diversified portfolio, your regular dividend income stream could continue, buffered by the ongoing payments of the other stocks in your portfolio. Although diversification does not guarantee against the risk of loss in a declining market, it can help to reduce the market volatility risk of your overall portfolio.

Second, when building your dividend-income portfolio, look for high-quality companies in sectors that have historically paid out a steady stream of dividends to shareholders. Finding these stocks can be tricky, but there are a few good places to start. Companies in stable industries or in highly regulated markets such as electric utilities are typically good candidates for a dividend-income portfolio. These companies usually face fewer threats to their business and fewer interruptions of their cash flow, making it less likely that they would have to discontinue dividend payments.

Another way to invest in a diversified portfolio of high-quality dividend-paying stocks is to choose a dividend income fund. A dividend income fund offers diversification in a mutual fund investment. Plus, a fund offers the expertise of a professional money manager, who does the research and selects the stocks on your behalf. Please note, however, that stocks and mutual funds are investments that involve market risk, and investment return and principal value will fluctuate so that upon redemption an investor's shares may be worth more or less than the original value.

Warren W. Wall CFP, CSA is a local financial author and advisor with W. Wall & Co. Inc., a Registered Investment Adviser. Are you asking tough questions about retirement? For more info and a free copy of The Answers to 46 Frequently Asked Questions About Retirement, visit www.Wallco.com or call 651-9617.

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